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SUBJECT: Dialogue on Economic Cooperation Ends With Follow-Up Commitment

¶1. (SBU) SUMMARY: The Government of Iraq (GOI) hosted the U.S. Government (USG) at the Al Rasheed Hotel in Baghdad February 27-28, 2008 for the U.S.-Iraq Dialogue on Economic Cooperation (DEC). Senior officials from both governments discussed the nature of the bilateral economic relationship, its future direction, and what the GOI can do to accelerate economic growth and improve the lives of its citizens. Over the course of eight working group sessions that covered a broad spectrum of Iraq's economic sectors, the GOI and USG both noted the importance of including the private sector in all manner of economic reforms. As a result of these sessions, the GOI and USG agreed to number of key 'next steps' for pursuing economic growth in Iraq, which will be tracked jointly by the High Economic Committee Secretariat within the Iraqi Council of Ministers and the U.S. Embassy in Baghdad. They also agreed to continue this important dialogue by holding another DEC in spring 2009. END SUMMARY.

Dialogue Reconvenes

¶2. (SBU) The Government of Iraq (GOI) hosted the U.S. Government (USG) at the Al Rasheed Hotel in Baghdad February 27-28, 2008 for the U.S.-Iraq Dialogue on Economic Cooperation (DEC). The DEC allowed senior officials from both governments to discuss the nature of the bilateral relationship, its future direction, and what the GOI can do to accelerate economic growth and improve the lives of its citizens. Over the course of various working group sessions that covered a broad spectrum of Iraq's economic sectors, the GOI and USG both noted the importance of including the private sector in all manner of economic reforms.

¶3. (SBU) As a result of these sessions, the GOI and USG agreed to number of key 'next steps' for pursuing economic growth in Iraq, including:

- Developing an action plan on state-owned bank restructuring;
- Ratifying the U.S.-Iraq Trade and Investment Framework Agreement (TIFA) in the Iraqi Council of Representatives (CoR) and convening the first TIFA Council meeting in 2008;
- Helping Iraq take better advantage of the benefits of the U.S. Generalized System of Preferences;
- Extending the USDA's heretofore successful Iraq Agricultural Extension Revitalization (IAER) program;
- Working together to create a comprehensive national energy strategy and improve investment in oil and gas;
- Pursuing GOI membership in the Extractive Industries Transparency Initiative (EITI);
- Implementing social safety net (SSN) measures to protect vulnerable Iraqi citizens;
- Reforming the Iraqi public distribution system (PDS); and
- Increasing USG technical assistance to improve budget execution and build ministerial capacity.

¶4. (SBU) To continue constructive bilateral dialogue, both sides agreed to mandate the High Economic Committee Secretariat within the Iraqi Council of Ministers and the U.S. Embassy in Baghdad to follow

up coordination and implement recommendation and decisions of this meeting. They also agreed to hold another DEC in spring 2009, the location of which will be determined.

¶15. (SBU) The DEC is the sixth in a series of bilateral economic meetings since 2003 that have focused on Iraq's economic reform agenda and priorities. Iraqi Deputy Prime Minister Dr. Barham Salih co-chaired the meeting with U.S. Under Secretary of State for Economics, Energy, and Agriculture Reuben Jeffery III and Treasury Under Secretary for International Affairs David McCormick. The Iraqi delegation included the Ministers of Finance, Planning, Oil, Electricity, Industry & Minerals, Trade, Construction & Housing, and Agriculture, as well as Iraqi Presidency and Council of Ministers senior officials. The USG delegation included top officials and specialists from the State Department, Treasury Department, U.S. Agency for International Development (USAID), Department of Agriculture (USDA), Department of Commerce, Department of Energy, Office of the U.S. Trade Representative, Iraq Transition Assistance Office (ITAO), and Multi-National Forces-Iraq.

¶16. (SBU) The senior-level representation at the meeting highlighted Iraqi leaders' ongoing commitment to establishing a robust, market-oriented economy, as described in the International Compact with Iraq, and the U.S. government's continued role in supporting these efforts. The significance of the meeting being held in Baghdad was noted by many of the participants.

Opening Plenary

¶17. (SBU) Deputy Prime Minister Dr. Barham Salih and Finance Minister Bayan Jabr elaborated on some of the economic gains Iraq was able to achieve over the past year, including spending significantly more of their own money on capital investment and reconstruction, considerable reduction of both official and privately-held debt,

drastic reduction in the rate of inflation, and adjusting fuel prices to reign in fuel smuggling. Both underscored the importance of taking advantage of security gains and the need for continued reforms, including banking sector reform, anti-corruption measures, and tax reform.

¶18. (SBU) U.S. Ambassador to Iraq Ryan Crocker, U/S of State Jeffery, and Treasury U/S McCormick all noted the significant economic progress Iraq has made, particularly under the International Compact with Iraq. Each expressed interest in deepening the bilateral economic relationship between the U.S. and Iraq to promote further economic reform in the coming years. USAID Acting Deputy Administrator Kunder also offered USAID's continued support.

¶19. (SBU) Charles Ries, Embassy Baghdad's Coordinator for Economic Transition in Iraq, gave a brief presentation outlining U.S. assistance efforts in Iraq since 2003 and the changing nature of the bilateral economic relationship.

Banking Sector Reform Working Group

¶10. (SBU) Treasury U/S McCormick and Finance Minister Jabr led their respective delegations during this very substantive working group. The GOI noted that Iraq needs to keep pace with the global banking sector, and that it has begun that process by committing to restructure Iraq's two largest state-owned banks, Rafidain and Rasheed. DPM Salih, who joined the session in mid stream, demanded that an action plan on bank restructuring be presented to the Council of Ministers by end March 2008. DPM Salih also specifically asked for USG assistance in developing this action plan, a point on which both U/S McCormick and CETI Ries agreed to follow up. Minister Jabr also suggested that both banks, particularly the lagging Rasheed, need to make progress in developing core banking systems.

¶11. (SBU) On Letters of Credit (L/Cs), Hussein al-Uzri, President of the Trade Bank of Iraq, noted the recent decision that all L/Cs below \$2 million will be processed through private sector banks, which will expand private banks' share of L/Cs to around 12% of the total volume of L/Cs, or around \$500 million. Minister Jabr emphasized the need for the TBI to begin distributing more L/Cs to the private sector.

Trade and Investment Working Group

¶12. (SBU) One of the key issues discussed in this working group was the TIFA. The TIFA has yet to be ratified by the Iraqi CoR, but is one of many items on the CoR's agenda when it returns. Dr. Abdul Hadi al-Hamiri special advisor to the Ministry of Trade, said he would like to lay the groundwork now for the TIFA Council stipulated in the agreement and be able to announce its formation after the agreement is ratified by Iraq. Both sides agreed to begin planning for a Council meeting in the near future, pending the ratification by the Iraqi CoR.

¶13. (SBU) The other major issues discussed were economic zones and Iraq's accession to the World Trade Organization (WTO). On economic zones, the Finance Ministry representative indicated that looting and infrastructure damage during the last six years have closed Iraq's economic zones, and called for huge amounts of funding for reconstruction in these areas to convince outside investors to return. DPM Salih also requested U.S. legislation for industrialized zones. In response, AUSTR Meredith Broadbent recommended, alternatively, that it would be beneficial to conduct an educational campaign on the Generalized System of Preferences throughout Iraq, a proposal which interested the Ministry of Trade. On the WTO accession process, Dr. Al-Hamiri noted that Iraq confirmed with the WTO Secretariat to hold its second WTO Working Party meeting for April 2.

Agriculture Working Group

¶14. (SBU) The Iraqi Ministry of Agriculture (MoA), USAID, and USDA all presented their respective current activities for developing the agricultural sector in Iraq, and their plans for future development and collaboration. Deputy Minister of Agriculture Dr. Subhi Al-Jumaily indicated that the MoA is guided by two strategic documents: the Prime Minister's Agricultural Development Initiative and a 3-year strategic plan that the MoA is developing. MoA emphasized the importance of the Coalition consulting with MoA before new agriculture projects are announced.

¶15. (SBU) USDA made known that their successful IAER program would be extended for an additional two years, through 2010. The MoA was also particularly interested in more information about USAID's INMA program, about which USAID agreed to brief the MoA by the end of March. Additionally, USAID suggested that, due to current USG budget shortages that are likely to continue, a GOI-USG dialogue on cost-sharing of agricultural programs should start now.

Energy Working Group

¶16. (SBU) This discussion focused on two aspects of the energy situation: the management of proceeds of oil and gas sales, and the development of oil and gas resources. On the former, Dr. Azez, special advisor to the Ministry of Finance, indicated that the Iraqi-led Council of Financial Experts (COFE), which has been identified as the replacement to the International Advisory and Monitoring Board for Iraq (IAMB), has the full confidence of the GOI as it works with the IAMB in preparation for taking over auditing the Development Fund for Iraq (DFI) in January 2009.

(SBU) Regarding oil and gas resource development, the GOI delegation stressed the importance of international investment and new technology to improve these sectors, and indicated that a 10-year plan exists to improve production. The U.S. delegation stated that international private companies are interested in investing in Iraq, but that the right legal and regulatory framework has to be in place. The Technical Service Agreements (TSAs) that the Ministry of Oil (MoO) is currently pursuing are a good start, but are not the solution; a framework law is needed. The U.S. delegation also pressed the importance of developing a collaborative, comprehensive National Energy Strategy, but no such strategy is planned. The GOI requested help in developing such a strategy.

Economic Revival Working Group

¶17. (SBU) Deputy Minister of Industry and Minerals Dr. Sami Al-Araji advocated for Iraq moving to a market economy, but cautioned participants that it could not be "at any price." He said that the Ministry of Industry and Minerals (MIM) was focusing its efforts on Small and Medium-sized Enterprise (SME) promotion, in particular how to hone SMEs to produce the "inputs" needed for Iraq's reconstruction and development like steel, cement, and fertilizer. The Ministry of Industry and Minerals and the Ministry of Labor and Social Affairs highlighted various GOI programs - particularly favorable lending and SOE revitalization - to help boost private sector development.

¶18. (SBU) The U.S. delegation agreed that SMEs will create the most jobs, which is also the case in the United States. USAID Deputy Assistant Administrator James Bever noted, however, that private banks will need to take a greater lending role and that there is a need for Iraq to develop that capacity for contract enforcement. Susan Hamrock-Mann from the U.S. Commerce Department cited the February 9 U.S.-Iraq Business Dialogue as a good way to leverage ways to attract US investment, but said that "capital is conscientious" and will look to find the most efficient commercial and legal environment.

Anti-Corruption Working Group

¶19. (SBU) The WG on Anti-Corruption was led by Dr. Faik Abdul Rasool and Econ Counselor Todd Schwartz on the US side. MoO Director General Nihad Ahmad Moosa presented an official letter, which had been sent earlier on behalf of the Government of Iraq to the Extractive Industries Transparency Initiative (EITI). The letter formally announced the GoI's intent to become an EITI member. DG Nihad issued a request for a subject matter expert to assist the GoI in gaining EITI membership. USAID Director described his agency's transparency initiatives. (Note: The Iraqi side had only two representatives for this WG. End note)

Iraqi Living Conditions Working Group

¶20. (SBU) Representatives from the Ministries of Labor and Social Affairs (MOLSA), Trade, and Housing and Reconstruction presented on several programs and issues, including the SSN, the PDS, and housing initiatives respectively. On PDS reform, the Ministry of Trade announced a three-year plan, beginning in 2008, to overhaul the PDS. On housing initiatives, the Ministry of Housing and Construction noted that there is currently the need for roughly 1.6 million housing units. The Ministry plans to combat this by building new units, rehabilitating old units, and augmenting the state-owned Real Estate Bank to encourage investment.

¶21. (SBU) Dr. Ahmad Ridha, Chairman of the National Investment Commission (NIC), contended that diversifying the economy beyond oil and passing critical legislation relating to investments, including the monetary law, are key steps towards making the Iraq economy the largest in the Middle East. He stated that the NIC would be fully engaged in creating the proper legal and regulatory framework for attracting investment. He also asked the Americans to encourage investment in Iraq and assist Iraq with purchasing modern technologies.

Ministerial Capacity Working Group

¶22. (SBU) This working group addressed the challenges and opportunities associated with GOI budget execution and reported on capacity building projects. The GOI highlighted its improved budget execution in 2007, but Dr. Aziz from the MoF said Iraq's cash-based accounting system hampered the GOI's ability to record accurate figures for budget execution. Looking ahead to 2008, Dr. Faik, a special advisor to the Ministry of Planning, said the GOI expected continued improvements, pointing out that the GOI had increased governors' and ministers' contract-signing authorities. The American delegation sympathized with the GOI's accounting challenges and expressed the USG's desire to continue working with the GOI to improve budget execution performance. The GOI and USG delegations

also agreed on the importance of re-starting the Iraq Financial Management Information System, especially in the provinces.

¶23. (SBU) On ministerial capacity building, the GOI delegation indicated that their own capacity development initiatives are in the early stages, and facing some growing pains. Minister of Planning Ali Baban said that USG-sponsored capacity-building programs would benefit from more cultural sensitivity and an understanding that many GOI officials and ministries have existing administrative strengths. USAID's Chris Crawley recognized these points and stated USAID planned to hire more Arabic speakers from other Gulf countries to lead capacity-building initiatives.

Closing Plenary

¶24. (SBU) DPM Salih led the closing session. Noting the improvements in security, DPM Salih stated that these positive changes would not be successful in the long term without economic reforms and improved living standards. Iraqis are proud of the achievements they have made despite the on-going difficulties, he said. Going forward, programs must translate into real dividends on the ground for the Iraqi people. The Deputy Prime Minister also specifically said that a new energy policy, agreed upon by the Iraqi government, would be adopted.

¶25. (SBU) While noting that the country faces difficult challenges, including political problems, the DPM stated there was consensus among the political leadership to tackle these challenges. The GOI, he said, was committed to dealing with economic reforms in cooperation with the international community to achieve progress at the national and regional levels. Both DPM Salih and Finance Minister Bayan Jabr expressed their appreciation for such excellent U.S. participation.

¶26. (SBU) Treasury U/S McCormick and U/S of State Reuben Jeffery highlighted the positive outcomes of the productive two-day meeting, and underscored that the way forward on Iraq's economy would be one of partnership with, and support from, the United States.

¶27. (SBU) Ambassador Ries extended thanks on behalf of Ambassador Crocker for all the participants who had made the meeting a success.

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